

AQUA ILLINOIS, INC.

**WOODHAVEN WATER
DIVISION**

PART 285.305 (g)

Aqua America, Inc.

*Retirement Income Plan for Aqua America, Inc.
and Subsidiaries*

Actuarial Valuation Report

Pension Cost for Fiscal Year Ending December 31, 2004

Employer Contributions for Plan Year Beginning January 1, 2004

September 2004

This report is confidential and intended solely for the information and benefit of the immediate recipient thereof. It may not be distributed to a third party unless expressly allowed under the "Actuarial Certification, Reliances and Distribution" section herein.



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Financial Results

This report summarizes financial results for the Retirement Income Plan for Aqua America, Inc. and Subsidiaries based on actuarial valuations as of January 1, 2004 and January 1, 2003.

	January 1, 2004	January 1, 2003
FAS 87 Pension Cost		
Amount	\$ 5,380,875	\$ 5,899,425
Percent of covered pay	9.6%	10.9%
FAS 87 Funded Position		
Accumulated benefit obligation [ABO]	\$ 120,383,239	\$ 106,230,573
Fair value of assets [FV]	108,730,745	94,437,648
ABO funded percentage [FV ÷ ABO]	90.3%	88.9%
Prepaid (accrued) pension cost	\$ (7,751,572)	\$ (1,852,147)
Employer Contributions		
Minimum required	\$ 2,819,351	\$ 1,470,879
Percent of covered pay	5.0%	2.7%
Maximum deductible	\$ 9,884,777	\$ 10,329,311
Percent of covered pay	17.6%	19.1%
ERISA Funded Position		
Actuarial accrued liability [AAL]	\$ 110,482,572	\$ 104,288,905
Actuarial value of assets [AV]	118,706,323	113,325,178
AAL funded percentage [AV ÷ AAL]	107.4%	108.7%
Current liability funded percentage:		
▸ Highest allowable interest rate	105.5%	108.2%
▸ Minimum contribution	105.5%	92.9%
▸ Maximum deductible contribution	93.6%	92.9%

Highlights

Economic Assumptions

The discount rate for pension cost purposes is the rate at which the pension obligations could be effectively settled. This rate is based on high-grade bond yields, after allowing for call and default risk. The following bond yields were considered in the selection of the economic assumptions:

	December 31, 2003	December 31, 2002
30-year Treasury	5.07%	4.76%
Merrill Lynch 10+ High Quality	5.84%	6.00%
Moody's Aa	6.01%	6.52%

The assumed rate of return on assets for pension cost purposes is the weighted average of expected long-term asset return assumptions. The salary increase rate is a long-term rate based on current expectations of future pay increases. The assumptions for pension cost purposes are:

	December 31, 2003	December 31, 2002
Discount rate	6.25%	6.75%
Rate of return on assets	8.50%	8.50%
Salary increase rate (Corporate and Local 473/CWC)	5.00%/4.00%	5.00%/4.00%

Assets

In the year ended December 31, 2003, the plan's portfolio achieved a 21.9% investment return (net of expenses), while the capital markets performed as follows:

Large equities [S&P 500]	28.69%
Intermediate/small equities [Russell 2500]	45.51%
Non-U.S. equities [EAFE]	39.17%
Bonds [Lehman Brothers Aggregate]	4.10%
Cash equivalents [Salomon Brothers 90-Day T-Bill]	1.07%

Changes in Benefits Valued

- ▶ The qualified plan compensation limit increased from \$200,000 to \$205,000.
- ▶ The maximum permissible benefit increased from \$160,000 to \$165,000.

The increase in minimum benefit level for the Local 473 Employees of Aqua America, Inc. from \$46 to \$49 per month as of January 1, 2004 is reflected for FAS 35 and current liability calculations. The increase in the minimum benefit level from \$46 to \$54 per month as of December 1, 2005 is reflected for the FAS 87 and actuarial accrued liability purposes.

Legislative Changes

On April 10, 2004, President Bush signed into law the Pension Funding Equity Act of 2004, which provided another two years of interest rate relief, replacing the relief that expired at the end of the 2003 plan year. For plan years beginning in 2004 and 2005, this relief changes the current liability rate from:

- ▶ 90% to 105% of a 4-year weighted average of the yield on 30-year Treasury bonds, to
- ▶ 90% to 100% of a 4-year weighted average of the rates of interest on amounts invested conservatively in long-term, investment-grade corporate bonds.

This change raises the ceiling on interest rates used to calculate current liability and tends to decrease cash contribution requirements.

The Act also provides additional funding relief:

- ▶ The Act removes a requirement in prior law that would have increased 2004 quarterly contributions for many plans.

FAS 87 Pension Cost and Funded Position

Pension cost is the amount recognized in Aqua America, Inc.'s financial statement as the cost of the pension plan and is determined in accordance with Financial Accounting Standard No. 87. The fiscal 2004 pension cost for the plan is \$5,380,875, or 9.6% of covered pay.

Under FAS 87, an important measure of funded position is a comparison of the fair value of assets to the accumulated benefit obligation (ABO). The ABO is the present value of accumulated benefits based on service and pay as of the measurement date.

The plan's ABO funded percentage is 90.3% as of January 1, 2004, based on the fair value of assets of \$108,730,745 and an ABO of \$120,383,239. Aqua America, Inc.'s balance sheet must reflect a minimum liability equal to the unfunded ABO for each pension plan with a funded percentage (fair value of assets divided by ABO) under 100%. To the extent that the minimum liability exceeds the accrued pension cost, an additional liability is recorded together with an offsetting intangible asset and/or a reduction in shareholder' equity (accumulated other comprehensive income).

Disclosures at fiscal year-end are prepared before the corresponding valuation results are available. Therefore, the December 31, 2003 additional minimum liability was derived from the January 1, 2003 valuation results. The December 31, 2004 disclosures will be developed based on the results of the January 1, 2004 valuation, rolled forward to the end of the year and adjusted for the year-end discount rate and asset values, as well as significant changes in plan provisions and participant population. The January 1, 2004 valuation results before that roll-forward process indicate an additional minimum liability of \$3,900,922 and a reduction in shareholders' equity of \$1,388,865.

Change in Pension Cost and Funded Position

The pension cost decreased from \$5,899,425 in fiscal 2003 to \$5,380,875 in fiscal 2004 because:

- ▶ Expected changes, based on prior year's assumptions, methods, plan provisions, and contributions, increased the pension cost \$118,729.
- ▶ Noninvestment experience increased the pension cost \$130,390.
- ▶ The return on the fair value of plan assets was 21.9% in fiscal 2003, which decreased the pension cost \$1,890,609.
- ▶ Assumption changes increased the pension cost \$1,019,921.
- ▶ Changes in benefits valued increased the pension cost \$103,019.

The ABO funded percentage increased from 88.9% to 90.3% primarily because of higher than expected return on assets.

History of Pension Cost and ABO Funded Percentage

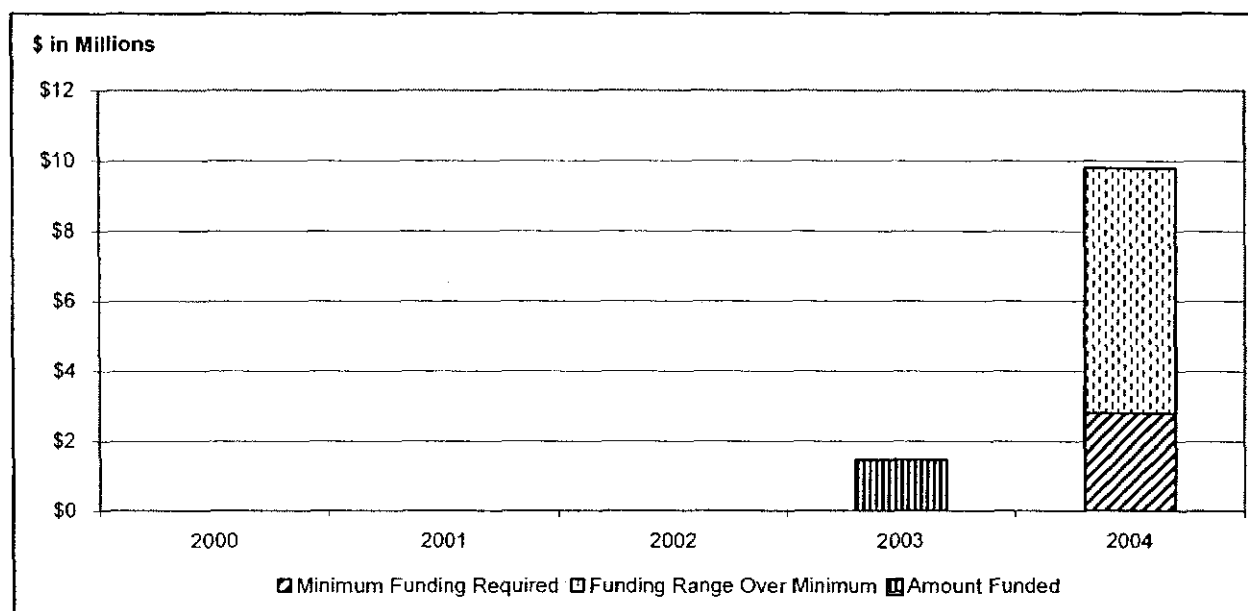
----- Pension cost -----

<i>Fiscal year</i>	<i>Amount</i>	<i>Percent of covered pay</i>	<i>ABO funded percentage</i>	<i>Discount rate</i>
2004	\$ 5,380,875	9.6%	90.3%	6.25%
2003	5,889,425	10.9	88.9	6.75
2002	1,145,809	6.4	104.0	7.25
2001	658,569	3.8	127.0	7.50
2000	(522,333)	(3.3)	151.0	7.75

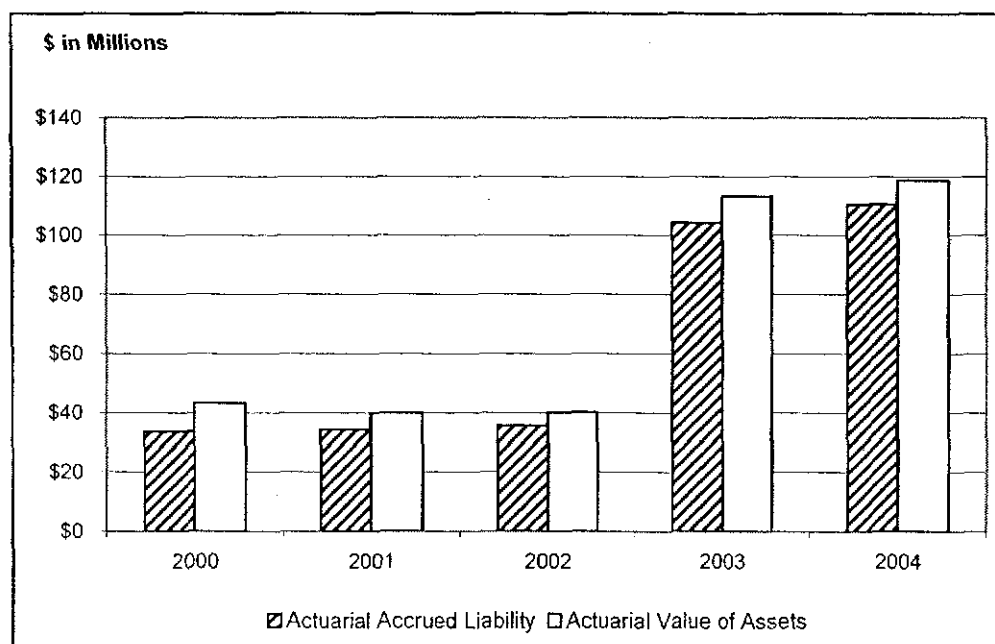
History of Employer Contributions and Funded Position

The following charts show the history of employer contributions and the funding range for 2004, as well as the actuarial accrued liability and the actuarial value of assets. Results prior to 2003 reflect results for the Corporate Plan prior to the merger of the Corporate, Local 473 and Consumers Plans.

History of Employer Contributions and Current Year's Funding Range



History of Actuarial Accrued Liability and Actuarial Value of Assets



Actuarial Certification, Reliances and Distribution

Aqua America, Inc. retained Towers Perrin to perform a valuation of its pension plan for the purpose of determining (1) its pension cost in accordance with FAS 87 and (2) the minimum required and maximum tax-deductible contributions in accordance with ERISA and allowed by the Internal Revenue code. This valuation has been conducted in accordance with generally accepted actuarial principles and practices.

The consulting actuaries are members of the Society of Actuaries and other professional actuarial organizations and meet their "General Qualification Standard for Prescribed Statements of Actuarial Opinions" relating to pension plans.

In preparing the results presented in this report, we have relied upon information provided to us regarding plan provisions, plan participants, and plan assets. We have reviewed this information for overall reasonableness and consistency, but have neither audited nor independently verified this information. The accuracy of the results presented in this report is dependent upon the accuracy and completeness of the underlying information.

The actuarial assumptions and the accounting policies and methods employed in the development of the pension cost have been selected by the plan sponsor, with the concurrence of Towers Perrin. FAS 87 requires that each significant assumption "individually represent the best estimate of a particular future event."

The actuarial assumptions and methods employed in the development of the contribution limits have been selected by Towers Perrin, with the concurrence of the plan sponsor. The Internal Revenue Code requires the use of assumptions "each of which is reasonable (taking into account the experience of the plan and reasonable expectations)" and "which, in combination, offer the actuary's best estimate of anticipated experience under the plan."

The results shown in this report are reasonable actuarial results. However, a different set of results could also be considered reasonable actuarial results, since the Actuarial Standards of Practice describe a "best-estimate range" for each assumption, rather than a single best-estimate value. Thus, reasonable results differing from those presented in this report could have been developed by selecting different points within the best-estimate ranges for various assumptions.

The information contained in this report was prepared for the internal use of Aqua America, Inc. and its auditors in connection with our actuarial valuation of the pension plan. It is neither intended nor necessarily suitable for other purposes. Aqua America, Inc. may also distribute this actuarial valuation report to the appropriate authorities who have the legal right to require Aqua America, Inc. to provide them this report, in which case Aqua America, Inc. will use best efforts to notify Towers Perrin in advance of this distribution. Further distribution to, or use by, other parties of all or part of this report is expressly prohibited without Towers Perrin's prior written consent.



Kevin J. Halfpenny, FSA



David N. Suchsland, FSA, EA

Towers Perrin

September 2004

Supplemental Information

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Asset Values

Asset Values for Calculating Pension Cost

Fair value, excluding
contributions receivable:

▶ As of January 1, 2003	\$ 94,437,648
▶ Contributions	0
▶ Disbursements	(5,728,283)
▶ Investment return	<u>20,021,380</u>
▶ As of January 1, 2004	\$ 108,730,745
▶ Rate of return	21.9%

Market-related value:

▶ As of January 1, 2003	\$ 94,437,648
▶ As of January 1, 2004	108,730,745
▶ Rate of return	21.9%

Asset Values for Calculating Employer Contributions

Market value, including
contributions receivable:

▶ As of January 1, 2003	\$ 94,437,648
▶ Contributions	1,470,879
▶ Disbursements	(5,728,283)
▶ Investment return	<u>20,021,380</u>
▶ As of January 1, 2004	\$ 110,201,624
▶ Rate of return	21.9%

Actuarial value:

▶ As of January 1, 2003	\$ 113,325,178
▶ As of January 1, 2004	118,706,323
▶ Rate of return	8.7%
▶ Rate of return (assuming mid-year cash flow) for Schedule B of Form 5500	8.7%

Fiscal 2003**Development of Prepaid (Accrued)
Pension Cost as of December 31, 2003**

Prepaid (accrued) pension cost, as of December 31, 2002	\$ (1,852,147)
Change during fiscal 2003:	
▪ Income (cost) recognized	(5,899,425)
▪ Employer contributions	0
▪ Effect of curtailments, settlements, and termination benefits	<u>0</u>
Prepaid (accrued) pension cost, as of December 31, 2003	\$ (7,751,572)

January 1, 2004**January 1, 2003****Reconciliation of Funded Status**

Funded status [FV – PBO]	\$ (37,747,611)	\$ (34,385,711)
Unrecognized net actuarial loss (gain)	28,710,849	31,630,479
Unrecognized prior service cost (credit)	2,512,057	2,338,957
Unrecognized transition obligation (asset)	<u>(1,226,867)</u>	<u>(1,435,872)</u>
Prepaid (accrued) pension cost	\$ (7,751,572)	\$ (1,852,147)

Balance Sheet Effects

Prepaid pension cost	\$ 0	\$ 0
Accrued pension cost	(7,751,572)	(1,852,147)
Additional minimum liability	(3,900,922)	(9,940,778)
Intangible asset	2,512,057	2,338,957
Accumulated other comprehensive income	<u>1,388,865</u>	<u>7,601,821</u>
Balance sheet effect	\$ (7,751,572)	\$ (1,852,147)

The Reconciliation of Funded Status and Balance Sheet Effects shown above differ from the amounts disclosed in Aqua America, Inc.'s 2003 financial statements because disclosures are prepared before the corresponding valuation results are available.

The accumulated other comprehensive income has not been tax effected. Any tax effect should be separately recognized.

Present Value of Accumulated Plan Benefits for FAS 35

	January 1, 2004	January 1, 2003
Actuarial Present Value of Accumulated Plan Benefits		
Vested benefits:		
▶ Participants currently receiving benefits	\$ 49,756,977	\$ 48,382,684
▶ Other participants	<u>38,843,486</u>	<u>35,497,314</u>
▶ Total vested benefits	\$ 88,600,463	\$ 83,879,998
Nonvested benefits	<u>3,353,225</u>	<u>3,062,663</u>
Total accumulated benefits	\$ 91,953,688	\$ 86,942,661
Market value of assets	110,201,624	94,437,648

Key Assumptions

Interest rate	8.50%	8.50%
Mortality	1994 GAM	1994 GAM

Change in Actuarial Present Value of Accumulated Plan Benefits

Actuarial present value of accumulated plan benefits as of January 1, 2003	\$ 86,942,661
Change from 2003 to 2004:	
▶ Additional benefits accumulated (including the effect of noninvestment experience)	3,275,770
▶ Interest due to decrease in the discount period	7,151,639
▶ Benefits paid	(5,728,283)
▶ Assumption changes	0
▶ Plan amendments	<u>311,901</u>
Actuarial present value of accumulated plan benefits as of January 1, 2004	\$ 91,953,688

Minimum Required Employer Contribution

	January 1, 2004	January 1, 2003
Minimum Required Employer Contribution		
Normal cost	\$ 2,680,286	\$ 2,501,038
Amortization amounts	0	0
Interest adjustments	139,065	212,588
Additional funding charge	0	0
Credit balance with interest	<u>0</u>	<u>(1,242,747)</u>
Minimum required contribution before full funding limit	\$ 2,819,351	\$ 1,470,879
Minimum required contribution after full funding limit	2,819,351	1,470,879

Additional details regarding the calculation of the minimum required employer contribution may be obtained from the Form 5500 Schedule B filings and attachments.

No quarterly contributions will be required for the 2005 plan year based on this year's valuation results.

Change in Minimum Required Employer Contribution

Minimum required contribution for 2003	\$ 1,470,879
Change from 2003 to 2004:	
▶ Expected based on prior valuation	1,304,323
▶ Loss (gain) from noninvestment experience	7,102
▶ Loss (gain) from asset experience	(291,143)
▶ Assumption changes	0
▶ Changes in benefits valued	328,190
▶ Method changes	<u>0</u>
Minimum required contribution for 2004	\$ 2,819,351

Actuarial Assumptions and Methods

	Pension Cost	Contributions
Economic Assumptions		
Discount rate	6.25%	8.50%
Return on assets	8.50%	N/A
Current liability:		
• Highest allowable interest rate	N/A	6.55%
• Minimum funding	N/A	6.55%
• Maximum deductible contribution	N/A	5.60%
Annual rates of increase:		
• Salaries (Corporate and Local 473/CWC)	5.00%/4.00%	5.50%/5.00%
• Future Social Security wage bases	4.50%	5.00%
• Statutory limits on compensation and benefits	3.00%	N/A

Demographic and Other Assumptions

Mortality 1994 Group Annuity Mortality Table (male and female)
1983 Group Annuity Mortality sex-distinct table for the RPA
current liability as mandated by IRS

Termination Rates varying by age and service
Sample rates for Corporate and Local 473 employees

Age	Male	Female
25	.101	.133
40	.034	.045
50	.011	.015

Sample rates for CWC employees:

Age	
25	.0527
40	.0384
50	.0152

Methods

Pension cost:

- | | |
|---|--|
| ▶ Measurement date | Fiscal year-end |
| ▶ Service cost and projected benefit obligation | Projected unit credit |
| ▶ Market-related value of assets | Fair value of assets |
| ▶ Amortization of unrecognized amounts: | |
| – Transition obligation (asset) | The transition obligation (asset) at the initial adoption of FAS 87 is amortized on a straight line basis. |
| – Prior service cost (credit) | Increase in PBO resulting from a plan amendment is amortized on a straight-line basis over the expected average remaining service of active participants expected to benefit under the plan. Decrease in PBO first reduces any unrecognized prior service cost; any remaining amount is amortized on a straight-line basis as described above. |
| – Net loss (gain) | Net loss (gain) in excess of 10% of the greater of PBO or the market-related value of assets is amortized on a straight-line basis over the expected average remaining service of active participants expected to benefit under the plan. |

Contributions:

- | | |
|---|--|
| ▪ Valuation date | First day of plan year |
| ▪ Normal cost and actuarial accrued liability | Projected unit credit |
| ▪ Actuarial value of assets | The actuarial value of assets are smoothed prospectively by recognizing over five years the difference between the expected market value and the actual market value. The actuarial value of assets will not be less than 80% on more than 120% of the market value. |

Benefits Not Valued

All benefits described in the Plan Provisions section of this report were valued. Towers Perrin has reviewed the plan provisions and is not aware of any significant benefits required to be valued that were not.

Participant Data

	January 1, 2004	January 1, 2003
Active		
Number	954	960
Average age	46.7	46.1
Average past service	15.7	15.3
Average future service	14.4	14.8
Covered pay:		
▪ Total	\$ 56,061,628	\$ 54,164,757
▪ Average	58,765	56,422
Deferred Inactive		
Number	383	368
Average age	49.8	49.4
Annual benefits:		
▸ Total	\$ 2,358,265	\$ 2,252,413
▸ Average	6,157	6,121
Currently Receiving Benefits		
Number	540	526
Average age	72.7	71.1
Annual benefits:		
▸ Total	\$ 5,892,806	\$ 5,658,923
▪ Average	10,913	10,758
Total Participants Included in Valuation		
Number	1,877	1,854

Analysis of Active Participant Data by Age and Service

Age Nearest Birthday	Years of Service								Total
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	Over 34	
15-19	Number	0	0	0	0	0	0	0	0
	Tot earn	0	0	0	0	0	0	0	0
	Avg earn	0	0	0	0	0	0	0	0
20-24	Number	11	1	0	0	0	0	0	12
	Tot earn	431,616	44,187	0	0	0	0	0	475,803
	Avg earn	39,238	44,187	0	0	0	0	0	39,650
25-29	Number	21	10	1	0	0	0	0	32
	Tot earn	874,801	556,850	44,551	0	0	0	0	1,476,202
	Avg earn	41,657	55,685	44,551	0	0	0	0	46,131
30-34	Number	24	17	12	1	0	0	0	54
	Tot earn	1,155,218	917,170	715,509	46,191	0	0	0	2,834,088
	Avg earn	48,134	53,951	59,626	46,191	0	0	0	52,483
35-39	Number	31	14	38	35	2	0	0	120
	Tot earn	1,631,874	783,598	2,201,177	2,088,494	114,833	0	0	6,819,976
	Avg earn	52,641	55,971	57,926	59,671	57,417	0	0	56,833
40-44	Number	29	17	31	47	27	6	0	157
	Tot earn	1,394,875	792,056	1,680,686	2,944,052	1,638,608	334,541	0	8,784,818
	Avg earn	48,099	46,592	54,216	62,639	60,689	55,757	0	55,954
45-49	Number	25	18	33	43	41	32	9	201
	Tot earn	1,301,176	937,611	2,028,517	2,735,634	2,487,451	1,796,114	554,998	11,841,501
	Avg earn	52,047	52,090	61,470	63,619	60,670	56,129	61,666	58,913
50-54	Number	16	9	22	32	29	48	26	185
	Tot earn	901,183	453,359	1,180,897	2,051,276	2,272,682	2,633,038	1,539,301	11,201,415
	Avg earn	56,324	50,373	53,677	64,102	78,368	54,855	59,204	60,548
55-59	Number	11	8	17	16	13	17	20	109
	Tot earn	614,621	894,953	1,698,297	1,056,640	909,387	926,040	1,372,116	7,981,988
	Avg earn	55,875	111,869	99,900	66,040	69,953	54,473	68,606	73,229
60-64	Number	3	9	10	11	4	6	7	66
	Tot earn	237,635	624,346	448,322	521,754	205,644	335,181	261,604	3,581,039
	Avg earn	79,212	69,372	44,832	47,432	51,411	55,864	37,372	54,258
Over 64	Number	2	2	1	2	1	3	0	18
	Tot earn	142,080	43,202	30,944	98,108	88,988	155,431	0	1,064,798
	Avg earn	71,040	21,601	30,944	49,054	88,988	51,810	0	59,155
Total	Number	173	105	165	187	117	112	62	954
	Tot earn	8,685,079	6,047,332	10,028,900	11,542,149	7,717,593	6,180,345	3,728,019	56,061,628
	Avg earn	50,203	57,594	60,781	61,723	65,962	55,182	60,129	58,765

Average Age = 46.7

Average Service = 15.7

Plan Provisions — Part A for Corporate Employees (former PSC Non-Union Plan Employees)

1. Effective Date of Plan: This plan was created by the merger of the Retirement Plan for Employees of Philadelphia Suburban Corporation into the Retirement Income Plan for Salaried Employees of Philadelphia Suburban Water Company. The provisions of the latter plan, with an original effective date of January 1, 1944, remain essentially unchanged. The plan was amended and restated effective January 1, 1998.
2. Eligibility for Participation: Participants in the plan on December 31, 1995 continue as participants in this plan. All other Eligible Class Employees become participants on the earlier of (a) or (b):
 - (a) the January 1 on or following completion of six months of continuous employment.
 - (b) the January 1 nearest the completion of one Year of Service.
3. Definitions:
 - (a) Computation Period: Calendar year.
 - (b) Eligible Class Employee: Any salaried or hourly paid employee not includable in a class of employees entitled to participate in another defined benefit pension plan of the Company or employed in a category that the Company has designated as ineligible for participation. Employees covered by a collective bargaining agreement are not covered under this plan. All employees hired after April 1, 2003 are not covered by this Plan.
 - (c) Year of Service: One year is earned for each Computation Period during which 1,000 hours or more are credited.

— Vesting: Except as noted below, Year of Service for vesting purposes from original date of hire.

Acquired Group

Date Vesting Credit Begins

Uwchlan	January 1, 1993
Great Valley Water Company	January 1, 1995
Media Water Company	Original date of hire
Hatboro Water Company	Original date of hire
Utilities Group Services, Inc.	Original date of hire
Bristol	Original date of hire
Borough of West Chester	Original date of hire
Bensalem Township	Original date of hire

- (iii) Minimum Benefit: Amount determined in schedule below multiplied by total Years of Service.

<u>Date of Termination, or if earlier, Normal Retirement Date</u>	<u>Annual Amount</u>
On or before November, 30, 1977	\$ 84
December 1, 1977–November 30, 1978	108
December 1, 1978–November 30, 1979	120
December 1, 1979–November 30, 1981	144
December 1, 1981–November 30, 1982	180
December 1, 1982–November 30, 1983	240
December 1, 1983–November 30, 1984	264
December 1, 1984 and thereafter	300

- (iv) Benefit accrued to December 31, 1988 based on the plan in effect at that date.
- (v) Effective January 1, 2002, a schedule of minimum benefits, for certain individuals, applicable at normal retirement age.

5. Early Retirement Benefit:

- (a) Eligibility: The first of the month on or next following attainment of age 55 and completion of 10 Years of Service.
- (b) Prospective Benefit:
- (i) Payable at age 65 — benefit as described in 4(b) above based on Average Applicable Compensation, Years of Service and Covered Compensation at date of termination.
 - (ii) Payable at an Early Retirement Date — benefit as described in 5(b)(i) above, reduced 1/4 of 1% for each calendar month payment precedes age 65.
 - (iii) Effective December, 1, 1986, participants who have attained age 62 and completed 30 years of service are eligible for unreduced early retirement benefits.

6. Postponed Retirement Benefit:

- (a) Eligibility: All participants retiring after their normal retirement date.
- (b) Pension Benefit: The greater of the benefit payable at normal retirement date, increased 1/2 of 1% for each month between normal retirement date and deferred retirement date and the benefit accrued to actual retirement.

13. Maximums on Benefit and Pay: All benefits and pay subject to maximum limitations specified by the Employee Retirement Income Security Act of 1974, as amended and defined by the Code for that calendar year.

- (e) Applicable Compensation: Total earnings of an employee, paid during the Computation Period, which are subject to withholding of federal income taxes, excluding values of fringe benefits and income resulting from exercising of stock options, sale of stock, stock appreciation rights and deferred or contingent compensation arrangements.
- (f) Average Applicable Compensation: The annual average of the Applicable Compensation during the 5 consecutive Computation Periods of the final 10 Computation Periods as an active participant yielding the highest such average.
- (g) Covered Compensation: The average of the Social Security wage bases in effect during the 35 years ending with the year the participant attains Social Security Retirement Age. Covered Compensation is calculated as though the participant attains Social Security Retirement Age in year prior to termination.

3. Normal Retirement Benefit:

- (a) Eligibility: The first day of the month coincident with or next following attainment of age 65.
- (b) Prospective Benefit: The sum of (i) and (ii), minimum the greater of (iii) or (iv):
 - (i) 1.0% of Average Applicable Compensation up to Covered Compensation plus 1.4% of the excess; the sum multiplied by Years of Service to a maximum of 25.
 - (ii) 0.5% of Average Applicable Compensation multiplied by Years of Service in excess of 25.
 - (iii) Minimum Benefit: Amount determined in Schedule below multiplied by Years of Service.

<u>Date of Termination or Normal Retirement Date, if Earlier</u>	<u>Annual Amount</u>
On or before November 30, 1977	\$ 84.00
December 1, 1977 – November 30, 1978	108.00
December 1, 1978 – November 30, 1979	120.00
December 1, 1979 – November 30, 1981	144.00
December 1, 1981 – November 30, 1982	\$180.00
December 1, 1982 – November 30, 1983	240.00
December 1, 1983 – November 30, 1984	264.00
December 1, 1988 – November 30, 1989	324.00
December 1, 1984 – November 30, 1988	300.00
December 1, 1989 – November 30, 1990	336.00
December 1, 1990 – November 30, 1991	348.00

- (b) Prospective Benefit: Benefit as described in (4)(b) above based on Average Applicable Compensation and Years of Service at termination is payable at age 65. Participants who had completed 15 Years of Service are eligible for benefits as early as age 55, reduced as described in (5)(b)(ii) above.

7. Disability Benefit:

- (a) Eligibility: Completion of 10 Years of Service and eligibility for disability retirement benefits under the Federal Social Security Act.
- (b) Prospective Benefit: The benefit described in (4)(b) above assuming Applicable Compensation and Years of Service at date of disability. Benefit is payable anytime after date of disability for as long as participant is disabled.

8. Preretirement Death Benefit:

- (a) Eligibility: For spouses of participants who die after earning a vested accrued benefit whether or not they are employed at the time of death.
- (b) Prospective Benefit: A monthly benefit for life equal to 75% of the benefit described in 5(b) calculated as if the participant had separated from service on the date of death, or date of termination if earlier, survived to the earliest retirement age and retired with a qualified contingent annuity.

9. Postretirement Death Benefit: None except as provided under normal or optional forms of annuities.

10. Employee Contributions: None.

11. Forms of Benefit:

- (a) Normal Form: For single participants the benefits are payable for life. For married participants the benefits are actuarially reduced to provide a 75% joint and survivor annuity, with the spouse as beneficiary.
- (b) Optional Forms: Life annuity option for married participants; 5-year, 10-year or 15-year certain and continuous annuities; 50%, 66 2/3%, 75%, or 100% joint and survivor annuities. Optional forms of benefit are determined to be actuarially equivalent to a life annuity.

12. Maximum Benefit: All benefits subject to maximum limitations specified by the Employee Retirement Income Security Act of 1974, as amended.

June 24, 2004

Mr. Robert A. Rubin
Chief Accounting Officer
Aqua America, Inc.
762 Bryn Mawr Avenue
Bryn Mawr, PA 19010

Dear Bob:

2004 FAS 87 EXPENSE AND CONTRIBUTION ALLOCATIONS

Enclosed are exhibits that summarize the allocation of 2004 FAS 87 pension cost and plan year "mid-point" funding contribution for the Retirement Income plan for Philadelphia Suburban Corporation and Subsidiaries. The allocation is among the Local 473, Corporate and CWC segments. We have further broken down the costs allocated to the Service Company for those individuals in the Corporate and CWC segments. Additionally, we have included an exhibit that summarizes the allocation of the 2004 pension cost for each CWC jurisdiction.

The allocated costs and target contributions are included on the attached exhibits. Documented below are the data and allocation methodologies that we have used.

Data

We have used the Service Company data provided by Aqua America, Inc. on June 17, 2004 to allocate costs attributable to this group. Note that Service Company results include 71 employees who are active, or are in receipt of, or are vested in, benefits under the plan. 59 out of the 71 employees are in the Corporate segment and the remaining 12 are in the CWC segment of the plan.

Note that there were an additional 21 employees provided by Aqua America as Service Company employees that were not participants in the pension plan. These employees have been excluded from our analysis.

Allocation Methodology – FAS 87 Expense

As has been our past practice for allocating FAS 87 expense, we have tracked the expense for the Corporate, Local 473 and CWC segments separately in an attempt to best replicate the costs that would have been attributable to each segment if the plans had not been merged. This process best retains the funded status attributed to each segment.

The CWC FAS 87 expense is further allocated to each location in the same method as it has been in past years. Specifically, the expense for CWC is allocated among each location in proportion to covered payroll.

The PSW FAS 87 expense is further allocated between the Service Company and Water Company by separately measuring the service cost and liability attributable to each group.

Allocation Methodology — Targeted Funding Contribution

As we have discussed previously, it has been determined that all of the contributions for the 2004 plan year will be attributable to the Corporate segment. This was determined by separately tracking the funded status of each segment of the plan. It was then determined that the Corporate segment was the least funded of the three. It remains the least funded of the three with 2004 plan year contributions attributable to the Corporate segment. Future contributions will be apportioned using the same process until all segments are "even". Thereafter, a simple allocation, like payroll, can be used.

Finally, we have allocated the Corporate contribution between the Service Company and the Water Company in proportion to the actuarial accrued liability generated by each group.

* * * * *

Please call me if you have any questions or need any additional information.

Sincerely,



Kevin J. Halfpenny, FSA
Consultant

KJH:sfm

cc: Tom McGuire – Aqua America, Inc.
Gina Ross – Aqua America, Inc
David Smeltzer – Aqua America, Inc.
Roy H. Stahl, Esq. – Aqua America, Inc.
Michael J. Thomas, FSA – Towers Perrin/Philadelphia

Direct Dial: 215-246-7245

Aqua America, Inc.
Retirement Income Plan
2004 Net Periodic Pension Cost Allocation

	<u>2004 Net Periodic Pension Expense/(Income)</u>
Corporate Segment	
Service Company	\$ 545,640
Water Company	<u>2,026,747</u>
Total	\$ 2,572,387
Local 473 Segment	\$ 1,200,904
Consumers Water Company Segment	
Consumers Water Co.	\$ 32,925
Consumers New Jersey Water Co.	226,653
Consumers Illinois Water Co.	269,604
Consumers Illinois - Vermilion County	97,325
Consumers Maine Water Co.	150,492
Consumers Ohio Water Co.	458,607
Consumers Pennsylvania - Susquehanna Division	25,867
Consumers Penn. - Roaring Creek Div.	107,215
Consumers Penn. - Shenango Valley Division	130,917
Consumers Water Co. - Waymart Division	20,990
Whitehaven Division	21,294
PA Service Company	<u>65,695</u>
Total	\$ 1,607,584
Total	\$ 5,380,875